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31 July 1986

MEMORANDUM FOR THE RECORD:

SUBJECT: MEETING WITH STAFF OF HOUSE GOVERNMENT
OPERATIONS COMMITTEE ON H.R. 3077, INSPECTOR
GENERAL ACT AMENDMENTS OF 1985

1. On 31 July 1986, [] (OGC) and [] (OCA) of the Agency met with staff of the Subcommittee on Legislation and National Security of the House Government Operations Committee: Richard Barnes (Staff Director), Cynthia Meadow and Carl Levin (Professional Staff Members). The purpose of the briefing was to discuss the application of H.R. 3077 to the Agency and that such application was unnecessary, if not harmful to the intelligence mission.

2. I introduced [] to the staff as the Agency representative from the Office of General Counsel and pointed out that he was qualified to speak on audit matters by virtue of his experience as a certified public accountant, having performed audits in the Agency and when he was in private business. He began his presentation by reiterating some of the arguments that the Justice Department made against the bill. Attached is a copy of a draft letter by Justice including those arguments. Barnes said that they were long familiar with those arguments and have found them unpersuasive.

3. [] then went to CIA specific arguments in support of an exclusion from the bill. He observed that we have a comprehensive system of oversight which reflects a delicate Constitutional balance between the executive and the legislative branches of government, (50 USC 413). This system has been in effect for a decade and has operated satisfactorily. Presently, we have the House and Senate Intelligence Committees that review in great detail all of our expenditures. To a significant extent this review is already duplicated by the Armed Services Committees and Appropriation Committees.

STAT 4. Another aspect that warranted emphasis is the tiny size of the Agency compared to such enormous institutions as DOD, Agriculture and HUD with their correspondingly huge budgets. Clearly, these agencies were in need of statutory inspectors general because of their size and budgets. In this connection [] pointed out the underlying reason for IG's and for "statutory audit units." Specifically, they were to maintain "internal controls" so that managers could manage more effectively. Effective internal controls are more readily obtainable in smaller agencies which is reinforced in the intelligence community by an elaborate oversight and review process. Additional review is conducted by the National Security Council and the President's Foreign Intelligence Advisory Board. OMB also plays a major hand in budget and audit review. Therefore a statutory auditor saddled with elaborate reporting requirements as specified in H.R. 3077 at this Agency would be unnecessary, duplicative and pose disclosure problems. In addition, it puts the reviewer of those reports outside the Agency in the role of second-guessing Agency decision making.

STAT 5. Cynthia Meadow asked whether the Agency had an IG. At this juncture [] explained how the Office of the IG was structured and the fact that he was independent, reporting directly to the DCI. She was also interested in whether our audit staff was separate from our investigators. It was apparent that the Committee staff had no appreciation or foreknowledge of the audit and investigative process in an intelligence environment. They seemed to think that merely because section 5(e) of IG Act provides for the confidentiality of records and that DOD has a statutory IG that the CIA could live with a statutory audit unit. [] hastened to explain that security clearances were one thing but this bill requires a wider dissemination of information than is currently required. Moreover, that the information was of the most sensitive type - how and where we spend our money. It would create an audit trail which would be a documentary disclosure of sources and methods. This is, perhaps, the most pernicious form of disclosure. Such disclosure is life threatening. In the face of this reasoning the Committee staff again retreated to their position that the DOD has lived with an IG. We explained that the DOD IG is needed to protect the hundreds of billions of dollars given for defense; he spends his resources auditing the visible projects such as DOD contracts for tanks and planes. Plus he spends a tremendous amount of time searching non-sensitive items - \$500 toilet seats and \$2000 coffee makers. Our budget pales by comparison. In addition it should be noted that all CIA personnel are cleared for top secret because of the nature of our work, while there are thousands upon thousands of DOD personnel that do not have such clearances.

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6. [] described the professionalism of our IG and audit staff. Most have some form of advanced degree such as a CPA or masters. We also hire MBA's to start as auditors. The DCI encourages a strong audit effort and a high degree of professionalism and independence. As evidence of this, a retired CIA audit director is now teaching at the interagency audit training center run by the Agriculture Dept.. Furthermore, we are required by statute to report violations of law, including illegal spending, to the oversight committees. The Agency also has a mechanism for audit resolution. Unlike auditing in private industry where the auditee pays the auditor, CIA auditors have every incentive to be independent and objective.

7. Brief mention was made to the Federal Managers Financial Integrity Act of 1982. Essentially, auditing and systems of financial control are managers tools. Agency practices and the statutory scheme of oversight provide more than enough of a framework for Agency managers to promote economy, efficiency and integrity. We believe that we are scrutinized more than any other agency of our size.

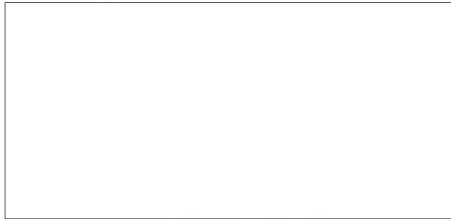
8. Ms. Meadow said that this bill has passed the House three times without action by the Senate. On none of these previous occasions has the Agency approached us with their concerns and to the extent that our arguments parallel the ones made by the Justice Dept., they have been already aired and found unpersuasive.

9. To effect our needs we offered a number of alternatives to the staff: (1) an exemption for the intelligence community, (2) an exemption for the CIA only, (3) referral of the matter to the intelligence committee. Barnes said that they would take too much political heat on a straight CIA exemption. A community exemption was too broad and was not acceptable. They would consider changing the reporting requirement so that the Agency makes its audit reports to the Intelligence Committees. Another problem they had to overcome was that the agency auditor had to be in the Civil Service. They suggested that the CIA auditor would not have to be in the Civil Service.

10. It was obvious from the attitude of the staff that the we were not going to get an exemption, even when we pointed out that the Senate companion bill had a specific exemption for the CIA. We also reminded them that OMB had testified that it opposed the general extension of the statutory audit unit concept to all agencies because of the diversity of the missions of these agencies. OMB asked the Committee to defer action on this bill until January of 1987 pending the completion of a report covering agencies not having statutory IG's.

STAT 11. After the meeting with the Committee I called the General Counsel of NSA and asked how they deal with the DOD IG. [redacted] an attorney for NSA, said that the IG has never been here, he has no authority over our actions because of sensitivity. IG type scrutiny of NSA is the responsibility of the Assistant Secretary for Intelligence Oversight (ASDIO); that position has been created by law through the Armed Services Committee. He reports directly to the Secretary of Defense. The same applies to DIA, as confirmed by [redacted] of DIA. This fact seems to draw from the claim by Government Operations staff that components of DOD are surviving with an IG.

STAT 12. Since the mark up by the full committee is scheduled for next Tuesday, the staff said that they would get back to us by Monday, 4 August.

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Legislation Division
Office of Congressional Affairs

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